

# **U.S. TRADE POLICY AND THE TRADING SYSTEM**

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Thank you very much. I am very pleased to be here with Ira Shapiro, who throughout the past decade has been both a shaper of American trade policy and a close friend. Equally, I am very happy to meet and exchange ideas with so many of the young men and women who will guide New England and our country as businesspeople, activists, analysts and policymakers in this new century.

We have a full trade agenda: China's membership in the World Trade Organization and permanent NTR; regional initiatives in Europe, Africa, Asia, the Western Hemisphere and the Middle East; legislation to strengthen trade ties with Africa and the Caribbean; a newly begun negotiations at the WTO on agriculture and services. But rather than focus on any one of these issues, or give you a laundry list of agreements and export statistics, let me today put our agenda in its context: our role in developing the trading system now embodied by the WTO; the values and aspirations we bring to this work; and the tasks we face in this new century.

## **AMERICAN TRADE PHILOSOPHY**

Our work at the WTO, to begin with, rests upon a foundation of American commitment to open markets, freer trade, and the rule of law in world commerce.

Americans have taken this position for over a half century. In one sense, this is a matter of economic logic. Open markets abroad enable us to export, and exports are essential to a strong domestic economy. Almost 80% of world economic consumption, and 96% of the world's population, is outside the U.S.; foreign tariffs and other trade barriers are substantially higher than ours. As markets open more fully to Americans, farmers face less risk of gluts that drive down prices, workers see opportunities for higher-wage employment, and firms gain economies of scale that help them invest in plants, jobs, and research.

Open markets at home are equally important. Imports create the choice, price and competition that raise family living standards -- for all families, but most especially the poor -- and help to dampen inflation. Accompanied by commitment to education and job training, imports

help American workers specialize in the most technologically sophisticated and financially rewarding fields. And they give businesses access to inputs -- raw materials, parts, business equipment -- that reduce costs and thus improve efficiency and competitiveness.

But our work has rested on more than economic logic: for over half a century, it has had a base both in practical experience with the alternative; and in our broader values and aspirations. And to understand why, we can trace our trade policies back to the beginning.

## **HOOVER AND ROOSEVELT**

Our modern trade policy begins, essentially, with the debate between Herbert Hoover and Franklin Roosevelt in the Presidential campaign of 1932.

President Hoover's trade policy had rested on the belief that America, with its high standard of living, could not compete effectively with poorer countries. As Hoover put it, in a message to Congress in 1929 calling for passage of the famous Smoot-Hawley Act, we "cannot successfully compete against foreign producers because of lower foreign wages and a lower cost of production." He persuaded Congress that he was correct and the result remains well-known today: a cycle of tariff hikes and retaliation which cut trade by 70% between 1930 and 1933, deepened the Depression, and intensified the political tensions of the era.

Roosevelt proposed the alternative, which we have followed ever since in principle and put broadly into practice after the Second World War. As he put it in 1944:

"A basic essential to peace, permanent peace, is a decent standard of living for all individual men and women and children in all nations. Freedom from fear is eternally linked with freedom from want. [And] it has been shown time and time again that if the standard of living in any country goes up, so does its purchasing power -- and that such a rise encourages a better standard of living in neighboring countries with whom it trades."

In 1948, when President Truman and 22 of his colleagues joined to form the WTO's predecessor (the General Agreement on Trade and Tariffs, or GATT), they were attempting to transform this insight into a lasting set of policies and agreements. They believed that by reopening world markets they could rebuild a shattered world economy; restore economic health and raise living standards; and that over the long term, together with a strong and confident security policy, as open markets gave nations greater stakes in stability and prosperity beyond their borders, a fragile postwar peace would strengthen.

This is in fact what has happened. Through eight Rounds of negotiations, and as 112 new members joined the 23 GATT founders, we abandoned the closed markets of the Depression; and the results are clear. Those countries which participated most fully in the work -- first in Western Europe, then Southeast Asia, Latin America and Central Europe - have seen living standards rise and political tensions diminish. Those which have done less -- the Middle East, South Asia,

Africa -- have seen poverty persist and political instabilities at times intensify; but today these regions too are moving toward policies that stress integration and shared benefit.

In broader terms, the opening of world markets has helped foster a fifty-year economic boom. Since the foundation of the GATT, trade has expanded fifteen-fold; the world economy grown six-fold; and per capita income nearly tripled. As a result, hundreds of millions of families escaped from poverty, and this is clear in statistics of social progress: since the 1950s, world life expectancy has grown by twenty years; infant mortality dropped by two-thirds; famine receded from all but the most remote or misgoverned corners of the world.

## **THE WORLD TRADE ORGANIZATION**

This is the legacy we inherited seven years ago. We have built upon it to create today's WTO: a trading system, based upon the GATT, but updated through the Uruguay Round (so-called because it began in Uruguay) which does more to create growth and raise living standards; to strengthen the rule of law; spur technological progress and development overseas; support reform in nations moving away from communist planning; and make our people prosperous and secure. And thus it helps us fulfill the modern goals of trade policy. Through the WTO:

- We strengthen our own economy, based on Roosevelt's conviction that we and our trading partners benefit from one another's success;
- We help the least developed countries find their rightful place in the world economy;
- We maintain and advance our values in other fields; and
- We use trade policy, especially in the aftermath of the Cold War, as a central means of building the international relationships that cement peace.

And in the balance of my time today I will look at each of these areas.

### **I. STRENGTHENING THE AMERICAN ECONOMY**

First of all, the WTO is an institution which promotes the open, confident policies initiated by Roosevelt; and thus, helps us to strengthen our own economy and improve life in the United States. And it does this in several ways.

#### **1. Opening World Markets**

To begin with, it has helped us to continue opening markets and creating opportunity worldwide.

In creating the WTO, we eliminated quotas and industrial tariffs by a third; broadened coverage to areas the GATT covered only partially or not at all, notably agriculture, services and intellectual property rights. And we are now going on to the negotiating agenda of the next decade. Its core elements are before us, in the agreement last February to open global talks on

agriculture and services. In these sectors markets remain most distorted and closed, and thus the opening of trade means perhaps most to future prospects for rising living standards, technological progress, and sustainable development. And in each we have ambitious goals.

We are now also examining market access concerns in industrial products, electronic commerce, trade facilitation, and other topics as well. One especially important, and universally recognized, need is for the WTO's wealthier and more advanced members to open their markets more fully to the products of the poorest and least developed nations. And the WTO is exploring ways to take the next steps in such areas as investment and antitrust policy, which are connected to trade but are not yet subject to their own multilateral regimes. Thus, while there are a number of different options for proceeding with trade liberalization beyond the agricultural and services sectors, we are continuing our work to build consensus for a new, more broadly based Round.

To build international consensus for such a Round will not be a simple task. However, the outlines can be drawn, if WTO members prove willing to rethink their negotiating positions, focus more fully on the shared benefits of the trading system in creating new sources of growth and opportunity and the shared responsibilities of reaching these goals, and find the balance that allows us to move ahead. As the President has said, we will keep working toward consensus; we are willing to be flexible, but our trading partners must do the same if we are to succeed.

## **2. Strengthening the Rule of Law**

At the same time, and apart from the negotiating agenda, the WTO has strengthened the rule of law.

The GATT system had a limited set of essentially unenforceable rules that applied differently to different members. With the WTO, we have a more comprehensive set of rules that are enforceable and apply to every single member. Together with this are an array of oversight bodies to monitor the commitments our trading partners have made; and a strong dispute settlement mechanism which we have used in 49 cases to preserve and enforce our rights.

This is of fundamental importance. The cases in which we have been involved, of course, help us to protect American rights and give individual Americans fair treatment when it has been denied. Through the dispute settlement process we have, for example, proved our contention that Canada was unfairly subsidizing exports of dairy products, hurting the livelihoods of dairy farmers in Vermont; and we protected American musicians against copyright piracy in Japan. And as they secure these concrete and specific interests, they help us confirm more basic principles: WTO members must keep their commitments; trade policies must be nondiscriminatory; we and other trading nations have a fundamental right to set the highest standards of environmental protection and consumer safety.

## **3. Building The 21<sup>st</sup>-Century Economy**

In the WTO we also created a permanent forum in which governments find new areas of shared interest and benefit, which we used in the past five years to reach four agreements of central importance to the 21<sup>st</sup>-century economy:

- The Information Technology Agreement, eliminating tariffs on \$600 billion worth of trade in high-tech manufactured goods such as computers, semiconductors, computer equipment, integrated circuits and telecom equipment, and so forth, on which we are now building toward an ITA II with still broader product coverage;
- The Agreement on Basic Telecommunications, opening world markets in a sector dominated for 60 years by monopolies and promoting pro-competitive regulatory principles. In just two years, it has eroded the ability of dominant carriers in foreign countries to keep rates artificially high and depress demand for telecommunications services and electronic commerce, helping to bring down rates to levels as low as 10 to 20 cents per minute, for calls between the U.S. and countries such as Japan and Mexico;
- The Financial Services Agreement, covering nearly \$60 trillion in financial transactions -- a figure half again as great as total world GDP -- per year. It has already helped U.S. services suppliers expand commercial operations and find new market opportunities both through ownership of or investment in foreign banking institutions, brokerage and insurance sectors, and through cross-border trade.
- And the WTO's commitment in 1998 to "duty-free cyberspace," helping to make sure electronic commerce develops freely as a means to promote trade, strengthen the power of consumers, and help the most impoverished regions take advantage of world markets.

#### **4. Prosperity and Economic Security**

Altogether, this makes the WTO an institution of great practical economic benefit.

We see this in our own economy, as the opening of world markets has helped spark a 55% expansion of American goods and services exports since 1992, to a record total of \$958.5 billion last year. Together with -- and inseparable from -- domestic policies including fiscal discipline and investment in education and job training, the opening of world markets has contributed to a remarkable record. If you will pardon a few statistics: we have seen \$2.1 trillion in economic growth, during the longest economic expansion in American history; the creation of nearly 21 million new jobs; a \$400 billion expansion in our manufacturing industry; wages for non-supervisory workers up 6.5%; and broadly shared benefits, with poverty rates at the lowest levels since 1979, and unemployment touching 4% in January, with record lows for women, African-Americans and Hispanics.

And just as important as these positive figures is what Arthur Conan Doyle in one of his Sherlock Holmes stories called "the dog that didn't bark." That is, in the Asian financial crisis of 1997-99, with 40% of the world in recession and five major Asian economies contracting by 5% or more, the world faced a crisis unlike any since that which sparked the great Depression in the 1930s. But in this crisis, WTO members generally remained true to their commitments; affected

nations had the access to markets necessary for a speedy recovery; and the political strife that can erupt in economic crisis never emerged.

This is a remarkable tribute to the work of the past seven years, and the foundation of the past fifty as well: the world in the 1990s passed a test it failed sixty years earlier. And if the GATT founders were here to see the results of their work, they could be forgiven for taking considerable pride in it.

## **II. PROMOTING DEVELOPMENT**

Second, the WTO is an opportunity to spark development and integration for the world's poorest countries.

This is not, of course, a task that trade policy can do alone. For example, in many least developed countries, the financial burden posed by debt has made growth very difficult; and President Clinton has thus challenged our Congress and the world to forgive 100% of this debt when relief will help finance basic human needs. But these nations also need access to markets, especially in areas of comparative advantage, and at times technical assistance to implement the market access commitments through which they attract investment and gain exposure to modern technologies. And we have developed a response.

We are enhancing our market access programs, beginning with expansion of the duty-free GSP program, and going on to more ambitious legislative proposals like the African Growth and Opportunity Act and expansion of the Caribbean Basin Initiative. The WTO is central to our efforts to win approval for similar and broader commitments worldwide, joining other industrial nations and the more advanced developing countries.

Equally crucial, we are helping these countries participate fully in the system. Many of them come to the table with less experience in trade policy and at times fewer resources to devote to it; they thus often feel they have difficulty in asserting their rights and interests in the WTO. A proposal we introduced last year, together with Bangladesh, Lesotho, Nigeria, Senegal and Zambia, to improve the technical assistance and capacity-building programs available from the WTO and other international institutions, can serve as a starting point.

## **III. PROTECTING OUR VALUES**

Third, the WTO has an important part to play as we think about the questions of the quality of life -- sustainable development and environmental protection; equity for working people; transparent and accessible institutions. These are as central as the unfinished work of opening markets and advancing the rule of law. And as we approach the task, we can draw important lessons from our experience at home.

Since the last time our unemployment rate touched 4%, in January of 1970, our economy

has grown from \$3.7 to \$9.2 trillion, manufacturing output nearly tripled, and 50 million men and women joined the work-force. This is nowhere more evident than in Boston, with the high-tech economy it has built in these years. At the same time, the percentage of our rivers and streams fit for fishing and swimming doubled, as one can see with a walk down the Charles River; many endangered or threatened species are recovering, as we can see with the return of the Atlantic salmon and the bald eagle to New England; we created modern consumer safety laws and key regulatory policies; and the number of workplace deaths fell 60%.

More recently, as our economy opened further with the trade agreements of the 1990s, we also wrote a stronger Safe Drinking Water Act, strengthened clean air standards and protection of wild lands; passed the Family and Medical Leave Act; and raised the minimum wage. And despite fears that a more open world would reward countries with lower wages or weaker labor and environmental standards, America's share of world foreign direct investment rose sharply, with foreign countries investing well over \$500 billion in America between 1994 and 1998.

Clearly, those who fear a "race to the bottom" can take reassurance in these facts. As our economy opened and grew in the past decade, our domestic labor and environmental standards have improved. But we also believe that there is absolutely no reason the world economy of the next decades cannot see the same combination of growth, better environmental protection, safer factories, stronger labor protection, and job creation. And while the principal driving forces for these changes are, of course, domestic policies, the trading system also has a role to play.

## **1. Environmental Protection**

It can do more to help us protect the environment.

Here the work has begun reasonably well. The WTO already cites sustainable development as a fundamental goal, and its agreements explicitly recognize the fundamental right of all its members to set any level of environmental protection and consumer safety desired, including at higher levels than international norms.

Looking ahead, we have a series of proposals for trade liberalization with direct environmental benefits: elimination of barriers to trade in environmental goods and services; as well as fishery subsidies which contribute to the world overcapacity that has endangered the Grand Banks among other historic fishing grounds; and agricultural export subsidies that increase pressure on land and water. And last fall we established a broad framework for systematically integrating environmental concerns into our trade negotiations, through the President's Executive Order on the Environmental Review of Trade Agreements, and the White House Policy Declaration on Environment and Trade.

## **2. Trade and Labor**

It is also true that the WTO can address more effectively the concerns of many workers.

Today, in a formal sense, the WTO does not recognize that links between trade and labor exist. This is not a position which can endure: it is intellectually indefensible, and it will over time weaken public support for the trading system. Our task, therefore, is to ensure that the WTO formally recognizes the relationship between trade and labor policy and acts upon it.

This is not by any means easy: many developing countries -- democracies such as Brazil, South Africa -- raise genuinely felt concerns that such a discussion would lead to discrimination against the poor. Our work must recognize and allay these concerns if we are to make progress. But while there are no easy answers, all of us will ultimately benefit from such a discussion.

### **3. Transparency and Institutional Reform**

Finally, the WTO must fully reflect the basic principles of openness and transparency which are essential to the success of any institution.

As trade grows and the impacts of globalization intensify; as trade becomes more important to all nations; and as improving education and modern telecommunications open all institutions to ever greater scrutiny and debate -- the need for openness, accountability and public access is greater every year.

The WTO does not yet fully meet this test, and that is, ultimately, a challenge to its future. Thus we are working for greater transparency throughout the system, through the progressive attainment of some practical goals: ensuring rapid release of documents, enhancing the input of citizens and citizen groups; providing the opportunity to file amicus briefs in dispute settlement proceedings, and opening those proceedings to public observers. These are essential to public support for the institutions of government at home; and the same is true for the institutions of the trading system.

## **IV. END OF THE COLD WAR**

Finally, the WTO is of cardinal importance in our response to one of the great political challenges of the present: the end of the Cold War, with the opportunities it creates to support reform in the countries from Central Europe to Southeast Asia breaking with strict communist planning systems; and thus to strengthen peace.

This is a task for our time with consequences as great as those of the GATT's reintegration of Japan and Germany in the 1950s. It is highly complex: in technical trade policy terms, the transition economies have features unlike most of those we have encountered in the past; and it is still more complex because in political terms they have chosen different paths, some emphasizing political change and others delaying or hoping to avoid it.

Thus it proceeds slowly and with occasional setbacks. But it is also achievable and well underway. Since 1995, the WTO has admitted six transition economies: Slovenia, Bulgaria,



Mongolia, the Kyrgyz Republic, Latvia, and Estonia. Georgia will enter soon; and the accessions of Albania and Croatia are almost complete. We have made significant progress with Armenia, Lithuania and Moldova; and held fruitful discussions with Russia and Ukraine as well.

And in our bilateral agreement on WTO accession with China, together with permanent Normal Trade Relations, we have an opportunity of vast consequence. This is a comprehensive agreement covering agriculture, services, industrial goods, unfair trade and investment practices and other rules, with specific, enforceable commitments in each area. Together with extension of permanent Normal Trade Relations, it will open China's markets in a way unprecedented since the 1940s, creating new opportunities for American farmers and businesses as it strengthens our guarantees of fair trade. And as with the foundation of the GATT, its potential beyond trade may be still more important.

In China, WTO accession will support reform. It will alter policies dating to the earliest years of the communist era, giving China's people more access to information, and weakening the ability of hardliners to isolate China's public from outside influences and ideas. That is why some leading advocates of democracy and human rights in Hong Kong and China – Bao Tong, jailed for seven years after Tiananmen Square; Ren Wanding, a founder of China's modern human rights movement; Martin Lee, the leader of Hong Kong's Democratic Party – see this agreement as China's most important step toward reform in twenty years.

And internationally, the WTO accession will deepen and speed a process of integration that has helped China become a more responsible member of the Pacific community. As China has reformed its economy and opened to the world, its stake in Asian stability and prosperity has grown. At the same time, China's economic reforms have helped to move its government away from the revolutionary foreign policy of the 1950s and 1960s, and towards a positive and constructive role in maintaining peace on the Korean Peninsula, in the Asian financial crisis, and as a member of the UN Security Council. And the WTO accession will be the most important step in this process in twenty years.

## **CONCLUSION: THE WORK AHEAD**

That is our record in fifty years of leadership in the trading system: one of helping to create opportunities and raise the living standards of Americans; of spurring development and growth worldwide; of advancing American values; and of building a stronger peace.

With this accomplishment behind us, we may well wonder why the trading system has become a bit controversial recently; but I think it is not a mystery at all. We live in an age when telecommunications and the Internet, together with improving education, are challenging old ways of doing business. In many ways, the WTO has not yet caught up with these changes. Likewise, few can now speak and act, as President Truman and his colleagues did, from personal experience with the Depression and the contribution misguided trade policy made to it -- to the contrary, the success of the trading system in preventing such an event in the more recent past tempts us to

take its benefits for granted. These facts require us to do more and work harder to make the case for open markets to the public.

It should also not be controversial to say that the trading system can be improved – the WTO is a product of human effort, compromise and negotiation; and everything human is flawed by definition. All of us, and young people in particular, should always look at the policies and institutions of the present and ask how we can do better. The WTO and its members must be open to new ideas and listen to its critics; only through openness will it retain the broad support of the public and its member governments over time.

But as we take up the challenge of reform, we must also remain true to the values and aspirations that animated Roosevelt and Truman at the foundation of the trading system. The generous and farsighted project they began has helped to spark an era of growth and rising aspirations unmatched in human history; has played its part in stabilizing peace; and can do still more in the years to come. The task will be by no means easy; but as we think about the work ahead we should be optimists, remembering always that others before us have shouldered equally difficult tasks and always brought them home to success.

Thank you very much.